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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF PRICE ADJUSTMENT	:	Docket No. R2012-3

COMMENTS OF L.L.BEAN, INC.

(November 7, 2011)

L.L.Bean, Inc. hereby submits its comments addressing the Postal Service's Notice of Price Adjustment, filed on October 18, 2011. Founded in 1912, L.L.Bean is one of the oldest catalog distribution companies in America, for nearly a century using the mails to reach customers with its catalogs as a cornerstone of its growth. L.L.Bean is a substantial user of Standard Mail, mailing its catalogs predominantly at Carrier Route postal rates and also at Standard Mail Flat and higher-density rates.

Although the Postal Service has sought judicial review of the Commission's decision in Docket ACR2010 to require a move toward cost-recovering rates for Standard Mail Flats, L.L.Bean had hoped that the Postal Service would nevertheless begin moving in that direction on its own initiative. Unfortunately, the Postal Service's proposal in this price adjustment proceeding does not do so. Given the delays inherent in the judicial review process, resolution of the legal issues is still a ways off.[1] Taken in conjunction with prior rate increases under the PAEA, it is apparent that the Postal Service intends to maintain below-cost rates for Standard Flats for the indefinite future, to the detriment of other Standard Mail products that thereby are being charged higher rates than warranted.

[1] Unlike its appeal in the exigency case, the Postal Service has not sought expedition of judicial review in its Docket ACR2010 appeal.

This concern is particularly evident in the case of profitable Carrier Route mail that, under the Postal Service's latest rate adjustment, is once again being hit with a larger increase than below-cost Flats. In its explanation of its proposed Standard price adjustments, the Postal Service repeats its prior claims that the "financial health and long-term viability of the catalog industry" continues to warrant a moderate increase for below-cost Flats. Its proposed 2.209% increase for flats – less than one-tenth of one percent greater than the CPI rate cap – will clearly do nothing to close the cost gap.

By contrast, for Carrier Route mail that makes a sizeable positive contribution to institutional costs, the Postal Service is once again proposing a larger increase than for below-cost Flats. Yet surprisingly, in its explanation of its Standard Mail rates (pp. 17-23), the Postal Service does not say a *single word* about Carrier Route. This lack of explanation is all the more stunning considering that this is the fourth consecutive rate adjustment where the Postal Service has hit Carrier Route with a larger increase than Standard Flats, an aggregate rate impact nearly double that of Flats:

Price Adjustments Under The PAEA

	Flats	Carrier Route
R2008-1	0.86%	2.99%
R2009-2	2.31%	4.31%
R2011-2	0.84%	1.38%
R2012-3	2.21%	2.43%
Cumulative	**6.35%**	**11.55%**

Indeed, among all Standard Mail products, only below-water Parcels have received a greater aggregate increase than Carrier Route over the last four years.

We share the American Catalog Mailers Association's surprise and apparent disappointment at the proposed rates. In its October 18, 2011 Washington Bulletin reporting on the new rates, ACMA stated:

> "Overall, we were surprised that SM flats received an increase on the low end of the spectrum while High Density flats received an increase at the high end. *This is the reverse of what we would have forecasted*." (emphasis added).[2]

What was overlooked by ACMA is that Carrier Route mail – far more heavily used by catalogers than High Density – would be hit with an even greater rate increase, as shown below for mail entered at the destination SCF:[3]

	% Rate <u>Increase</u>
Automation 5-Digit Flats	1.97%
Carrier Route	2.70%
High Density Flats	2.30%

More significantly, ACMA apparently has come to recognize that Carrier Route is of greater importance to the catalog industry as a whole, and that the pattern of higher rate increases for Carrier Route needs to be reversed:

> "While we are appreciative that the significant financial turmoil of the catalog sector is recognized, *we would have preferred to see the range flipped given the more significant role of Carrier Route for catalogs today*. ACMA estimates are that only a quarter to a third of books are mailed in SM flat *with two thirds or more being entered as Carrier Route* (see the ACMA survey project below that will give us precise data on this mix)." (emphasis added).

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2 Source: http://www.catalogmailers.org/clubportal/clubdocs/2129/ACMAAlert-NewRatesAnnounced,Oct.18,2011.pdf

3 The rate table in ACMA's newsletter incorrectly stated that High Density Flats would increase by 2.878%. That, however, is the increase for the combined "High Density/*Saturation* Flat" product, due primarily to the large increase in the DAL surcharge for Saturation Flats. The actual increase for High Density is, in fact, less than that for Carrier Route, as we have shown.

This raises serious doubt whether the Postal Service's policy of moderating below-cost Flats prices at the expense of the far greater volume of catalogs in Carrier Route has been beneficial to the catalog industry as a whole.

The pattern of rate increases over the last four price adjustments is indicative that Carrier Route prices have been set at above-average levels in order to cross-subsidize below-cost prices for Flats. This treatment of Carrier Route is even more troubling given the nature of this product in the marketplace. In deciding how many catalogs to mail and whom to mail to, catalogers distinguish between recipients who are current or recent customers (a "customer list") and non-customers (a "prospecting list"). Mailings to customers typically generate a higher response rate and return-on-investment. These are the "high value" addresses to which a cataloger will continue to mail even in hard times, and as a consequence have a lower postal-price sensitivity than low-response prospect mailings to non-customers. Yet prospecting is vital to the long-term health of a catalog, continually seeking new customers to replace the churn among existing customers and to grow the catalog's customer base and profitability.

The degree to which catalogers add prospects to their mailings is correlated with the density of the mailing. For many catalogers, Carrier Route is the vehicle for expanding the reach of their mailing to prospects. In many ways, Carrier Route is a key "engine of growth" for both catalogers and the Postal Service. Yet because of the relatively higher price-sensitivity of prospect mailings, the Postal Service's disparate treatment of Carrier Route rates discourages prospecting.

L.L.Bean believes the Postal Service's pricing of Carrier Route is doing the industry and itself a disservice, stunting the growth sector of the marketplace. The

Postal Service should instead begin rebalancing its pricing to encourage mailers to expand their prospecting for new customers. That will benefit not only the catalog industry but the Postal Service, as well, by generating greater volumes of profitable mail that will in turn lead to a stronger and healthier catalog industry over the long run.[4]

L.L.Bean understands that the Commission's primary focus in rate adjustment proceedings is class-wide compliance with the statutory CPI rate cap. However, given the Postal Service's complete lack of explanation and justification for its Carrier Route rates, and its continued favoritism of below-cost Flats over Carrier Route which accounts for the bulk of catalog volume, we would urge the Commission to address this issue in its review of the Postal Service's proposal and to take such further action as it deems appropriate.

Respectfully submitted,

/s/

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4 Because the Postal Service has provided no explanation for its Carrier Route rates, its rationale is unknown. However, in its brief to the Court of Appeals on review of the Commission's ACR2010 decision, the Postal Service has claimed that it is better off financially by maintaining below-cost rates for Flats and correspondingly higher rates for profitable products, based on what it concedes is a "simple hypothetical example." *See* USPS Initial Brief, Case No. 11-1117, at 14-16. Its example is more "simplistic" than simple, ignoring the disparate treatment of Carrier Route mail and the implications of price elasticity. Imposing larger price increases on profitable mail that is more price sensitive than its money-losing products is not a recipe for business success.